Aqua Illinois, Inc.

Vermilion Division

Testimony
Exhibit 4.0

David R. Monie

AQUA ILLINOIS, INC.
DIRECT TESTIMONY
OF
DAVID R. MONIE
AQUA EXHIBIT 4.0

DIRECT TESTIMONY OF DAVID R. MONIE:

WITNESS IDENTIFICATION AND BACKGROUND

Q: Please state your full name and address.

A: My name is David R. Monie. I live at 1 Ternberry Court, Turnersville, NJ 08012.

Q: What is your business affiliation?

A: I am President of G.P.M. Associates Inc., a water engineering and management consulting firm located at 1920 Frontage Road, Suite 110, Cherry Hill, NJ 08034.

Q: Please state your educational, professional, and business background and experience leading up to your current position.

A: I am a 1966 graduate of Tufts University in Medford, MA. with a B. S. Degree in Civil Engineering. After graduating from Tufts, I spent approximately three years in the United States Army including one year as Executive Officer of the Post Engineer Office at Ft. Monmouth, NJ and one year as a Staff Engineering Officer for the 29th General Support Group in Long Binh, Republic of Vietnam. After leaving the Army, I spent seven years with the Aqua America System, then the parent company of Aqua Illinois Water Company, including one year as a Staff Engineer in the home office and six years as an Engineer and District Manager with Aqua New Jersey Water Company, then known as Garden State Water Company. While with Aqua America, I had various positions in management and engineering. I spent a great deal of time working on rate increase applications and was considered the "Cost of Service" expert for the Aqua America System during my last several years with the company. As such, I performed Cost of Service Studies for Garden State Water Company and Hudson Water Company, another subsidiary of Aqua America at that time. In November of 1976, I left Consumers and

became President of G.P.M. Associates Inc.

Q. **What are your responsibilities as President of G.P.M. Associates Inc.?**

R. Since joining G.P.M. Associates Inc., I have continued my experience in the water utility management and engineering fields, including consulting on a large number of rate increase applications. As an independent consultant, I have provided Cost of Service Studies and Tariff Designs in California, Delaware, New Hampshire, Illinois, New Jersey, Pennsylvania and Ohio. I have performed these studies for investor owned water companies, municipal systems and water authorities. In addition, I have provided the Tariff Design for many rate increase applications, some of which did not include Cost of Service Studies.

Q: **Are you a licensed professional engineer?**

A: Not in Illinois, but in four other states.

Q: Are you a member of any professional organizations?

A: Yes, I am a member of the National Society for Professional Engineers, in which I am the Treasurer of the South Jersey Chapter; the American Water Works Association and the National Association of Water Companies, in which I served several years as a member of the Rate Design Subcommittee and two terms as Chairman of the Small Water Companies Committee as well as a term as Chairman of the New Jersey Chapter. I am now the Small Company representative on the Executive Committee. I am a Past President of the South Jersey Association of Water Superintendents.

Q. **Have you previously testified in regulatory matters?**

R. Yes, I have.

PURPOSE OF TESTIMONY

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to sponsor the study entitled "Aqua Illinois, Inc. Vermilion Water Division Cost of Service and Tariff Design Studies for 2009 Period" that is attached to this testimony as Schedule 4.1 which was performed under my direct

supervision and control.

Q: Are you sponsoring any Exhibits in this proceeding?

A: Yes. I sponsor the Schedules required by Subpart H of the Standard Information Requirements for Vermilion, which are set forth in Aqua Illinois Exhibit 6.0.

Description of Studies

Q: Briefly describe these studies.

A: The Cost of Service Study was undertaken to determine the relative cost of providing water service to the various customer classes of the Vermillion Division of Aqua Illinois, Inc. ("Vermilion"). The results of the cost of service study were then used to prepare a recommended tariff design that has been included on Table 11 of Schedule 1. The rate base and expenses detailed in the cost of service study were taken from the filing for the rate increase by Aqua Illinois, Inc. such that the total cost of service equals the total revenue requirement.

Q: Please describe the method by which you allocated the costs of service.

A: I used the base-extra capacity method of allocating costs. The basis for this methodology is in the Water Rates Manual M1 of the American Water Works Association, Fifth Edition.

Q: How are your studies organized?

A: The narrative portion of the report both summarizes the findings and describes the Cost of Service and Tariff Design Studies. Following the narrative are twelve tables which set forth the calculations for both allocating the cost and proving out the revenue to be received at present rates and by using the recommended tariff design.

Q: Please describe how the study allocated the costs.

A: The narrative portion of the Schedule 4.1 describes the various calculations made; however, I will briefly summarize the study. The base-extra capacity method allocates the cost to the various customer classes by allocating the cost items of operation and maintenance expenses, income and property taxes, other taxes, depreciation expense and

income available for fixed charges to the base, extra capacity maximum day, extra capacity maximum hour, customer and direct fire protection functional cost components. Estimated units of service are then determined by customer class for the above cost components. The unit cost of service for the various cost components is then calculated. The total cost of service by customer class is then calculated. An adjustment for small mains is made to better allocate costs related to small mains to the smaller use customer classes.

Table 1 determines the allocation ratios for the base and extra capacity functions. These ratios are based on the average day to maximum day and average day to maximum hour usage levels. Tables 2 and 3 allocate the plant investment (rate base) and operation and maintenance expenses to the functional cost components using the allocation ratios determined in Table 1. Those items principally designed to meet maximum daily requirements are allocated by the maximum day ratio developed on Table 1. Those items principally designed to meet maximum hour requirements are allocated by the maximum hour ratio also developed on Table 1. Those items principally used for customer services are allocated to the customer cost component and those items used only for fire protection are allocated to the direct fire protection cost component. Table 4 summarizes the results of the calculations on Table 3 as well as showing the breakdown by functional cost component for income and property taxes; other taxes; income available for fixed charges and depreciation expense. Income and property taxes were allocated based on the allocations of plant investment as determined on Table 2; other taxes were allocated based on the allocation of operation and maintenance expenses developed on Table 3; income available for fixed charges was allocated based on the plant investment allocations developed on Table 2 and depreciation expense was likewise allocated based on the plant investment allocations developed on Table 2. Table 5 shows the calculation of the estimated units of service by customer class. The non-coincidental extra capacity factors by customer class were based on the monthly consumption records, pumping

records, experience and normal utility practice. The same factors as used in the COSS in the 2004 Cost of Service study in Docket Number 04-0442 are used. The customer equivalent units are based on the AWWA schedule of proportionate meter capacities. The customer equivalent units were developed on a schedule (WP 5b) attached to Table 5. The fire protection equivalent units were allocated between private fire protection and public fire protection based on the cross sectional area of the connection. There is a schedule developing this breakdown (WP 5c) also attached to Table 5. The unit cost of service is calculated on Table 6 and then spread by customer class on Table 7. The study describes the actual calculations in detail.

Q: What did your Cost of Service and Tariff Design Studies conclude?

A: Table 7 and Table 12 show the revenues that should be produced from each customer class. Table 12 shows, in addition to the revenues which the Cost of Service Study suggests should be received from the various customer classes, the revenues received from the various customer classes at current and proposed rates. The Tariff Design section of the narrative discusses the recommendations for tariff design that arise out of the Cost of Service Study and other considerations. The tariff designs that have been approved in past rate increase applications for Vermilion have increased the Large Industrial customer class much less than the approved overall increase. This trend was broken in the last rate case for Vermilion in Docket No. 04-0442. TeePak is the only eligible customer for this tariff. This has the effect of lowering the revenues from this customer class to a point significantly below its cost of service. This is, however, appropriate rate making since there is a concern that this large employer and water user could choose to leave the region if water rates were to be too high. After much consideration, it was decided by the Company to propose an increase in TeePak's rates at the level of the overall rate increase. Private Fire revenues are considerably below their cost of service. It is proposed to start the process of bringing Private Fire revenues to cost of service by increasing these rate by 37.1%. Public Fire revenues are below their

cost of service. It is proposed to move Public Fire revenues to their cost of service and to utilize the "Two Tier Method" of allocating Public Fire charges among the various Fire Districts. The other customer classes, after factoring in the lower revenue from the Large Industrial customer class and Private Fire, for the most part, are contributing revenues close to their cost of service. Sales for Resale are proposed to be increased at the overall percentage increase. Consumption Rates were increased proportionately to produce the remaining revenues required so the Company will realize its requested revenue requirement.

Q: Mr. Monie, did you calculate the revenues for the company on an annualized basis for the 12 months ending December 31, 2006 and for the projected 12 months ending December 31, 2009 at current rates?

A: Yes. Table 8 of Schedule 1 shows the billing analysis and revenue calculation for Vermilion for the 12 months ended December 31, 2006 at current rates. Table 9 shows the same billing analysis, after adjustment, for the 12 months ending December 31, 2009 at current rates.

Q: Mr. Monie, did you prepare the tariff design for the proposed rates?

A: Yes.

Q. Please discuss the Schedules required by Subpart H of the Commission's Standard Information Requirements, contained in the Company's Exhibit 6.0, for Vermilion.

A. Schedule E-1 is a copy of all proposed tariff sheets. Schedule E-2 is a copy of the currently effective tariff sheets which shows, in strikeout form, all existing rates and tariff language that the Company proposes to remove and also shows, in underline form, all new rates and tariff language that the Company proposes to add. Schedule E-3 provides a narrative rationale for the proposed tariff charges. Schedule E-4 provides the billing units that make up test year revenue for each designated rate. Schedule E-5 provides calculations showing the derivation of jurisdictional revenues from each current rate schedule and each new rate schedule proposed by the Company. Schedule E-7 consists

of bill comparisons by rate schedule and classification for each rate schedule.

Q: Mr. Monie, does this complete your testimony at this time?

A: Yes.